Upstate New York Power Producers, Inc.
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September 9, 2013

U.S. Environmental Protection Agency
Region 2
Chief Air Compliance Branch
290 Broadway
New York, NY 10007-1866

Subject: EPA Mercury & Air Toxics Standards ("MATS")
Notice of Extension for the Somerset Operating Company, LLC and the Cayuga Operating Company, LLC Facilities

Dear Madam or Sir:

As a follow up to the extension request letter dated April 12, 2013, Upstate New York Power Producers, Inc. ("USNYPP") is providing further information on facility compliance plans pursuant to the MATS rule language exercising the standard which provides existing sources to have up to 4 years if they need to comply, and also to The Mercury Air Toxic Standards ("MATS") for Power Plants and the EPA's Office of Enforcement and Compliance Assurance Policy Memorandum dated December 16, 2011 for use of the Clean Air Act Section 113(a) Administrative Orders in relation to electric reliability and MATS. The Enforcement Response Policy addresses operation of a unit, which could potentially operate in noncompliance of MATS, and to grant an additional year of operation to address local reliability concerns. Upstate New York Power Producers, Inc., a Delaware Limited Liability Company is the current and sole owner of the Somerset Operating Company, LLC ("SOC"), located in Barker, NY, and Cayuga Operating Company, LLC ("COC"), located in Lansing, NY.

The Somerset Unit #1 will be affected by the MATS rule and the standard as stated above, provides for existing sources to have up to 4 years if they need to comply. The Somerset facility was not able to complete some of the compliance testing in August due to adverse electricity market conditions and will require additional environmental testing next year, to address any noncompliance issues, and implement additional technology controls, and thus a one year extension is requested for the Somerset facility to fully comply with MATS by April 16, 2016.

Regarding Cayuga Units #1 & #2, as directed by the Public Service Commission ("Commission") staff, COC and NYSEG filed a term sheet for a Reliability Support Services Agreement ("RSSA") for the Commission's consideration and approval. On December 17, 2013, the Commission issued an order that approved the term sheet and directed COC and NYSEG to file a final executed copy of the RSSA. NYSEG and COC are currently negotiating extending the RSSA beyond January 15, 2014 as a short term option until either the facility is repowered with natural gas or electric transmission is upgraded.

On January 17, 2013, the Commission instituted Case 12-E-0577, proceeding to examine long term repowering alternatives to utility power plant reinforcements and directed National Grid and NYSEG to work with generation owners to evaluate repowering of two power plants in upstate New York. The Commission directed National Grid to evaluate repowering as an alternative outcome for the Dunkirk generating station and NYSEG to do the same for the Cayuga generating station. On February 19, 2013, NYSEG issued a Cayuga Repowering Solicitation ("Solicitation") to COC to present several options for repowering the Cayuga units. On March 26, 2013 COC's proposal detailed four options for repowering the Cayuga Power Plant. The range of proposals provide solutions that meet both regional peak demand needs during summer and winter months as well as the State's overall goals of higher-efficiency energy production.

Each option is described below:

1. Option 1: Repower the two existing coal-fired boilers with natural gas.

This option would involve adding natural gas burning equipment on the two existing coal boilers along with all the necessary controls and natural gas piping systems. The efficiency of the repowered boilers would improve while still being able to make the full 300 MW that the station currently provides. In addition, emissions of SO2 would be eliminated and CO2 and NOX would be significantly reduced.

2. Option 2: Construct three new gas-fired turbine generators that are peaking units.

This option would involve installing 3 new gas turbine generators that would be suited for providing electricity very quickly in times of peak demand. Each unit would be capable of 100MW, so the station would still be able to make the full 300 MW that it currently provides. In addition, emissions of SO2 would be eliminated and CO2 and NOX would be drastically reduced.

3. Option 3: Construct a new highly-efficient gas fired combined cycle turbine generating unit that uses the existing steam turbine generator in addition to repowering one of the existing coal-fired units with natural gas.

This option would involve installing a new gas turbine generator and combining it with a new heat recovery steam generator that would supply steam to the existing Unit 2 steam turbine. This option provides an innovative way to supply electricity in a highly-efficient manner while

still utilizing existing equipment. The output of this "combined cycle gas turbine" (CCGT) would be around 250 MW. Along with repowering one of the existing boilers with natural gas as described in Option 1, the total output of the station would be over 400MW. Emissions of SO2 would be eliminated and CO2 and NOX would be significantly reduced.

4. Option 4: Construct two new highly-efficient natural gas fired combined cycle turbine generating units.

This option would involve installing two new gas turbine generators and combining them with new HRSG's that would supply over 325 MW of electricity in a highly-efficient manner. Emissions of SO2 would be eliminated and CO2 and NOX would be drastically reduced with the installation of these state-of-the-art CCGTs.

In addition, in order to further the goal of encouraging the development of renewable energy set forth in the New York Energy Highway Blueprint, Cayuga proposed to construct a 2 MW array of solar photovoltaic panels to supplement the gas-fired capacity available from the re-configured plant site.

NYSEG compared the repowering options to the transmission upgrade option and on May 17, 2013 submitted their recommendation to the Commission to upgrade their transmission system, in which COC disagrees. NYSEG and COC will continue to collectively work together, under the direction of the Commission, on cost/benefit analysis of the reliability options and will continue to supply information to the Commission regarding repowering verses transmission until a final decision is made by the Commission later this year.

Based on the long term reliability concerns and the probable RSSA extension, the Cayuga facility compliance plan still requests a fifth year extension to April 16, 2017, but will be contingent upon the RSSA extension being granted and/or the long term approval of Cayuga repowering with natural gas.

In summary, based on additional testing and the implementation of additional environmental control technology, a one year extension is requested for the Somerset facility to be in compliance with MATS by April 16, 2016. Based on the implementation of additional environmental control technology, and the probable RSSA extension which requires operation of these units for future system reliability, a two year extension is requested for the Cayuga facility to be in compliance with MATS by April 16, 2017.

Please provide a response regarding approval of the MATS compliance extension requests or if you require further documentation. If you have any questions regarding this compliance plan please feel free to contact me at (607) 533-7913 ext. 2222 or at john.marabella@usnypp.com . Thank you for your consideration in this matter.

Sincerely,

John C. Marabella
Director of Environmental and Regulatory Affairs
Upstate New York Power Producers, Inc.

Cc: Mr. Randall S. Orr, P.E. (NYSDEC-Division of Air Resources)

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